

February 7, 1986

Dear Manufacturer:

CD-86-03 (LD)

SUBJECT: Domestic Content--Transmittal of a Letter to Ford which
may be of General Interest to Other Manufacturers

The enclosed letter is provided for your information as we
believe it of general interest to all manufacturers.

Sincerely,

Robert E. Maxwell, Director
Certification Division
Office of Mobile Sources

Enclosure

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

ANN ARBOR, MICHIGAN 48105

OFFICE OF
AIR, NOISE AND RADIATION

February 7, 1986

Mr. D. R. Buist, Director
Automotive Emissions & Fuel Economy Office
Ford Motor Company
The American Road
Dearborn, Michigan 48124

Reference: Your Letters of November 7, 1985 and January 24,
1986 on Domestic Content Calculation--Crown
Victoria/Grand Marquis

Dear Mr. Buist:

EPA has studied the methodology used by Ford for calculating domestic content, the applicable statutes and regulations, and Ford's specific plan for the 1988 Crown Victoria/Grand Marquis program. After careful scrutiny of your current plans for this program, we have concluded that, based on your projections, at least 25 percent of the cost to you will likely be imported content. Therefore, we concur with your current plan to classify the Crown Victoria/Grand Marquis car lines as imported.

This should not be construed as a blanket approval of Ford's domestic content calculation methodology. We believe the intent of the law is to assure that "domestic vehicles" contain at least 75 percent U.S./Canadian value added and "imported vehicles" contain at least 25 percent non-U.S./Canadian value added. While the Ford methodology leads to the correct result when applied to the current Crown Victoria/Grand Marquis program plans, we are concerned that it might lead to an incorrect result when applied to other future plans.

Specifically, EPA is concerned that Ford's component tracking system may define the term "component" too broadly. This could lead to problems if some parts (which we would consider to be components) were to be exported from the U.S. and used in the assembly of some larger or more complex component. If that latter component were to be imported into the U.S., it might not be reasonable to report the full value of the latter component as imported content. For example, it would be theoretically possible to export from the U.S./Canada a proportionately large value of components, complete an assembly process outside the U.S., import into the U.S. a final assembly carrying a relatively low actual import value added and then claim a very high imported content. In our opinion, this situation would be inconsistent with our understanding of the law because it could result in a car line which contains significantly less than 25 percent non-U.S./Canadian value added being classified as an import.

This problem can be overcome by tracking components to a finer level of detail. We believe it is reasonable and appropriate to define components to be anything which carries an individual part number and which can be ordered as a replacement part, but excluding generic parts such as screws, fasteners, and raw materials. Thus, when components are first exported from and then imported into the U.S./Canada as part of a larger assembly, the import content becomes the fair market value of the final assembly less the fair market value of the exported components. Our regulations have not been defined to this level of specificity because we did not contemplate the situation where any significant number of parts would be exported and then imported. Based on our discussions with other manufacturers concerning how they calculate content, we believe it should be possible to track components at this level of detail.

Given your demonstration in the context of the Crown Victoria/Grand Marquis program that it is possible to submit additional information establishing the actual imported content as required by the law, we are not requiring Ford to revise its component tracking process. However, we will want to review any significant change in your plans or projections for this program from those presented during our meeting on October 7, 1985 and documented in your letter of January 24, 1986.

We ask Ford or any other manufacturer that anticipates being in close proximity to the 25 percent content threshold on any

future program review their plans with us in advance. Such programs and any other program which EPA believes could be inappropriately classified will be carefully reviewed (detailed support data may be required) to assure that import content is maintained at the level required by law.

Sincerely,

Robert E. Maxwell, Director
Certification Division
Office of Mobile Sources